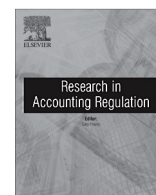


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Changing reporting models: A summary of the experience in Finland

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ABSTRACT

This study identifies relevant issues regarding behavior and responsiveness of accounting practices and standards to political developments in a single national setting. Research into monitoring of attitudes and practices regarding traditional versus evolving models will likely engage researchers for some time to come in all sovereign jurisdictions particularly in the light of post 2008 global financial events.

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Environmental factors including culture have influenced the development of accounting systems internationally (Gray 1988; Nobes & Parker 2008). The adoption of International Financial Reporting Standards has been affected by local financial reporting practices in all nations. This study examines the results of three studies, based on archival data, surveys, and interviews, that address internationalization of accounting in Finland (Pajunen 2010a).

In 1973 Finland passed fundamental accounting legislation (*The Accounting Act of 1973/655*), based on the so-called expenditure-revenue theory as developed by Professor Martti Saario in the 1940s–1960s. While this approach to accounting is not unique to Finland, its important role as the basis for the Accounting Act of 1973 may be unique. Thus, in Finnish accounting the focus has been on measurement of the income statement and resulting profit, with the balance sheet holding only residual items as an outcome of matching. Saario's theory emphasized the adoption of historical costs in valuation, believing that revaluation of fixed assets is not appropriate (Saario, 1969). The realization and matching principles are important in this theory, as they

are in other countries' systems (Räty, 1992). Also the accrual basis in book-keeping is important in Saario's theory (Pihlanto & Lukka, 1993; Saario, 1969).

Since passing the *Accounting Act of 1973 (655)*, Finnish financial reporting has moved towards internationalization. In the 1980s, in order to provide better information for international users, some larger Finnish companies began to prepare parallel financial statements in addition to those prepared under the Finnish accounting legislation. Secondary financial statements were prepared under international accounting principles such as IAS and US GAAP. (Niskanen, Kinnunen, & Kasanen, 1993; Pirinen, 1996; Pirinen, 2005; Räty, 1992.) In 1995 Finland joined the European Union. However, not until the *Accounting Act of 1997 (1336)* did Finland remove the expenditure-revenue theory officially from its role as the cornerstone. Since the beginning of 2005, Finnish listed companies have adopted IFRS in their consolidated financial reporting. Thus, financial reporting of Finnish companies has followed a path of responsiveness to its changed regulatory and economic environment.

1. The growing internationalization of Finnish financial reporting in 1973–2005

An examination of the articles published during the period 1973–2005 in two professional journals, *Auditing* and *Accounting Gazette*, reveal four distinct periods of professional writing and discussion that correspond roughly to the responsiveness mentioned earlier. The articles in

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the period from 1973 until 1983 are characterized by *growing internationalization*. This was a relatively inactive era with few articles on the subject. However, an explicit desire for more international Finnish financial reporting was expressed by some active auditors who wanted to promote the adoption of IAS in Finland. The second period is characterized by *the first appearance of the IAS*. This period started in 1984 and lasted until the turn of the 1990s. During this period, a number of articles on internationalization were published, and the discussion was very active. Some auditors and representatives of larger companies strongly criticized Finnish financial reporting, which in turn provoked replies regarding Finnish accounting traditions based on expenditure-revenue theory from other writers. In the third period, the early half of the 1990s, *dominance of the EU directives* is the focus, and IAS was pushed to the sidelines. However, this period produced fewer articles and less controversy. The fourth period, *the second coming of the IAS*, began in the mid-1990s and continued to the end of the research period. Once again, the IAS was discussed while the EU directives became less important. Many articles were written on related topics, including explications of complicated standards (Pajunen 2009).

2. IFRS from the viewpoint of accounting professionals

To understand the meaning of IFRS for Finnish accounting professionals, eleven interviews with thirteen Finnish accounting professionals were conducted in 2007, following the end of the previously discussed time periods. Based on these interviews, implementing IFRS has been a difficult and challenging task. Fair value is seen as a problematic issue because of its vague definition. Goodwill in consolidation is considered problematic because goodwill is not amortized. There were complaints of too few detailed instructions about practical procedures, and inconsistencies among the many explanations and definitions. These interviews demonstrated that even now, while some accounting professionals regard accounting simply as a practice and technique, others focus on accounting as a culture where theoretical and conceptual considerations predominate. Both expenditure-revenue theory and IFRS have strong proponents in Finland. However, attitudes toward IFRS are sometimes simultaneously both critical and approving. One interviewee acknowledged that he has different mental niches for evaluating the old and the new issues in accounting (Pajunen 2010b).

3. Four different lines of thought among Finnish accounting professionals

To further examine professional viewpoints, an additional survey was administered in May 2008 to examine attitudes among Finnish accounting professionals toward both IFRS and earlier Finnish accounting traditions. The questionnaire included statements based on the differences between traditional Finnish accounting and IFRS, as well as on information obtained from the earlier interviews. Agreement or disagreement with the statements was measured. The resulting responses were subjected to

factor analysis, which identified four different lines of current accounting thought in Finland (Pajunen 2010a).

IFRS enthusiasm is the first factor. This factor was related to statements that expressed a positive attitude towards IFRS, as well as statements that supported rejection of expenditure-revenue theory. *IFRS criticism* is the second, and opposite, factor. The statements that weighted on this dimension reflected a critical attitude toward IFRS. *Fair value emphasis* is the third factor. These statements focused on acceptance of fair value in the financial statements, without necessarily rejecting the expenditure-revenue theory. Moreover, this factor is less enthusiastic towards IFRS than the first. The fourth factor is *Conservative prudence*. The statements weighted here reflect prudence, and simply regard IFRS as a big change in financial reporting. Not surprisingly, age and the length of work experience affected the attitudes reflected toward IFRS, older Finnish accounting professionals and those respondents with long work experience being more critical (Pajunen 2010a).

The strong cultural tradition in Finnish financial reporting that favors the income statement approach continues to exist, but it is accompanied by a pragmatism toward IFRS as the operational reality. It is not clear that the income statement approach acted as a deterrent to the adoption of IFRS. Obviously as Finland took steps to join the EU and it would be expected to move its financial reporting into a more into a form more in line with IFRS's balance sheet and value model, as a response to this political development. (Pajunen 2010a).

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